

PG&E Comments Regarding ETAAC's Discussion Draft dated November 15, 2007

Presented below are comments from Pacific Gas and Electric Company (PG&E) regarding ETAAC's Discussion Draft dated November 15, 2007. While PG&E has provided input to ETAAC as a committee member throughout this process and will continue to do so, we would also like to provide specific written comments on this comprehensive draft report. In particular, as the ETAAC report is to be a reflection of "consensus views when consensus was reached, and...a range of differing points-of-views when agreement was not possible" (p.1-4), we wish to call out specific areas where PG&E has a differing view, as well as provide some suggestions that could further strengthen the report.

At the outset, PG&E is concerned that the draft report does not adequately take into account one of the over-arching objectives of AB 32, which is to ensure that the costs to California consumers and businesses of complying with AB 32's emissions reduction goals are mitigated to the extent feasible and consistent with achieving those emissions goals on a timely basis. For the electric sector alone, the costs of acquiring emissions "allowances" to comply with AB 32 could be in the range of \$2 billion a year (assuming 100 million metric tons of emissions at \$20 per metric ton.) Because of this huge potential cost, PG&E supports allocating AB 32 emissions allowances in the electric sector to utilities and other load-serving entities for the benefit of their customers who will be paying the costs of the allowances. Contrary to this position, the draft report appears to consider the revenues raised by auctioning of AB 32 emissions allowances to be a new source of public funding for various well-intentioned AB 32-related projects and programs. We believe the draft report needs to recognize more clearly the cost mitigation goals of AB 32, and narrow its proposals for new public programs accordingly.

Subject to the comments and differing views we provide below, we applaud the Committee's efforts both in developing this comprehensive draft report and in actively soliciting public comments to ensure the final report contains a robust set of recommendations that will help California meet its aggressive greenhouse gas emissions reduction goals.

1. Financial II. A – Create a California Carbon Trust

1. This recommendation would create a California Carbon Trust which includes the funding of GHG reduction projects outside the AB 32 cap as one of its objectives. The draft report cites the retrofit of the HVAC system at a multi-family residential building as an example, where the Carbon Trust could offer to purchase the project's carbon benefit from the building owner, thereby reducing the project cost (p.2-4). Please note that California utilities already offer incentives for energy efficiency projects. While we support the concept of funding certain GHG projects through the Carbon Trust, we also recognize a need to address potential issues that may arise due to program and jurisdiction overlaps and to ensure that the objectives of the Carbon Trust meet the overall objective of mitigating the costs to California consumers and businesses of achieving AB 32's emissions reduction targets. In particular, the State should consider the how overlapping GHG and energy efficiency programs may adversely impact projects both inside and outside of capped sectors. We recommend that the draft report explicitly include a statement that, in creating the Carbon Trust, the State would also need to address cost mitigation issues and potential program overlap to avoid double counting, clarify crediting issues, as well as address the potential impact on the net-to-gross ratio

and calculation of program cost effectiveness of the State's existing energy efficiency programs. The State must ensure that GHG policies not inadvertently disadvantage or worse, jeopardize the state's successful energy efficiency programs. Energy efficiency is a critical component in California's GHG reduction strategy. As such, the state should ensure that any GHG policy or regulation to be implemented complement its energy efficiency objectives and not create any unintended consequences. Last but not least, the recommendation that the Carbon Trust be funded through revenue raised by auctioning of emissions allowances needs to be qualified by the need to ensure that the revenues from emissions allowances are allocated for the benefit of the utility customers paying for those allowances.

2. We note that the CPUC has issued an OIR (07-09-008) regarding the establishment of a California Institute for Climate Solutions (Institute). One of the proposed objectives of the Carbon Trust is to fund university research (p.2-7); therefore, it would be appropriate to reconcile the proposal for the Carbon Trust with the separate proposal for the Institute to avoid overlap and duplication of funding and programs.
3. We also note that two other recommendations have linkages to the proposed Carbon Trust and could therefore be consolidated with this recommendation: Financial II. B – Promote Clean Energy Innovation and Commercialization, and Industrial III.E – A Revolving Fund for Technology Demonstration Projects. Finally, we note that there may also be some overlap with the statewide Emerging Technologies program funded by Energy Efficiency, which will also need to be addressed.

2. Financial III.C – Leveraging AB 32 to Spur California Job Creation and Manufacturing

Under “Ease of Implementation” (p.2-13), the draft report indicates that this recommendation could be funded using existing public goods charge (PGC) funds. This does not appear to be an appropriate use of ratepayer funds. We recommend deleting the reference regarding the use of PGC funds. It is not clear that existing legislation or CPUC decisions or AB 32 itself would permit the diversion of PGC funds for this purpose.

3. Financial III.D – Clean Technology Workforce Training Program

This recommendation would create a program to address workforce needs in new skill and occupational demands across industries that are developing and deploying advanced clean technologies in California (p.2-17). Please add a reference that the type of work contemplated here is included in the scope of the proposed California Institute for Climate Solutions.

4. Industrial II – Improved Analytical Basis for Planning

This section includes a recommendation to establish a Greenhouse Gas Policy Institute to provide research and recommendations for life cycle analysis of GHG mitigation and guidance on policies and decision making (p.4-2). We note that there are already a number of policymaking agencies within California and thus have some concerns regarding potential overlap. Instead, we recommend that the State explore whether the proposed work could be incorporated into the existing policy framework.

5. Industrial II – Adaptation to Climate Change

This recommendation would create a Climate Adaptation Roundtable group to integrate resource, habitat, land use and development master planning using analyses and likely warming scenarios (p.4-3). Again, we note possible linkage to the proposed California Institute for Climate Solutions being considered by the CPUC.

6. Industrial IV.H – Rebates for Load Reduction

This recommendation would expand load reduction rebate programs to include non-generation technologies, such as solar technologies that provide refrigeration/cooling without combustion or compression, waste heat technologies that provide refrigeration/cooling and energy storage technologies that allow peak reduction and demand response (p.4-9). We recommend that this section further describe how this program fits in with and should be coordinated with existing programs such as energy efficiency, customer generation and demand response programs.

7. Industrial IV.I – Improve Policies for Combined Heat and Power Plants (CHP)

We have several concerns regarding this recommendation.

1. This recommendation calls for defining qualifying CHP, determining the total qualifying CHP potential and adopting a statewide target in accordance with AB1613. This recommendation also calls establishing targets and qualifying criteria for larger units not covered by AB1613 (p.4-9). We do not believe larger CHP units that are not covered by AB1613 should be included. This recommendation should focus on qualifying CHPs that reduce GHG emissions through waste heat recovery and improved overall energy utilization, and not on large generators that offer little benefit over baseload combined cycle power plants.
2. The problem statement states that “...state and utility policies with regard to ‘self-generation’ have in part discouraged full penetration of cost-effective CHP into the industrial and commercial sectors” (p.4-10). Cogenerators currently receive a number of benefits, including favorable gas transportation prices, favorable buy-back rates for surplus power under must-take arrangements, and exemptions from some of the non-bypassable charges. We believe that it is important that ETAAC presents a balanced view on this topic. Thus, please either delete this statement or include a description of the benefits that cogenerators currently receive.
3. This recommendation also would recognize CHP in the State’s electricity supply loading order as an energy efficiency measure, so long as all other cost-effective energy efficiency has been achieved in the facility (p.4-10). We heartily agree that facilities must first implement all cost-effective energy efficiency measures before sizing and installing CHP systems. In addition, because there is such recognition that energy efficiency must come first and thus distinct from CHP, we do not believe CHP should be considered the same as energy efficiency in the loading order. There are significant differences between energy efficiency and CHP. Specifically – Energy efficiency focuses on customers’ end

uses, is widely dispersed, reduces demand through improved technology, is available to any customer, and does not require back-up power at any time. In contrast, CHP focuses on generation, not demand reduction, substitutes one source of electricity with another, and requires the distribution grid to provide back up power. We also have concerns regarding fossil-fueled CHP (or any non-renewable distributed generation, for that matter), in that the scale of CHP projects is generally such that carbon capture and sequestration will not be cost-effective, if feasible at all. Thus, there would have to be significant and compelling GHG benefit from qualifying CHPs in order to be considered for preferential treatment in the loading order (before renewables).

4. This recommendation would also eliminate departing load charges for qualifying CHP (p.4-10). It is important that the draft report provide the policy context of why CHPs are currently subject to departing load charges. Please add the following to the text: “California legislature and the CPUC have determined that CHPs should not be exempt from certain fees (such as departing load charges) that are incurred on their behalf and that would otherwise be borne by other California ratepayers. If the state creates a viable carbon market, the question of additional subsidy may go away, as many more CHP projects can capitalize on the carbon value to improve project economics without ratepayer subsidy.”
5. This recommendation would also restore qualifying combustion technologies to the Self Generation Incentive Program (p.4-11). Please also add a clarification in the text that only CHP or Self-generation that emit less CO₂ than combined cycle gas turbine should be considered for SGIP incentives.

8. Agriculture II.A – Manure-to-Energy Facilities

1. This recommendation would develop a standard contract price for power from manure-to-energy facilities, as well as permit owner/generator to own RECs, including cases other than those directly related to RPS compliance and specific contractual arrangements pertaining to RECs (p.6-5). We agree that regulatory and price certainty would encourage investment in biogas system; however, we also believe that the standard contract price for power from manure-to-energy facilities should be consistent with the MPR (market price referent). Please also note that if the project owner/generator is selling the biogas to utilities to be used to create RPS-eligible electricity, then the REC is included in the transaction. PG&E notes that California investor owned utilities will soon have a tariff that will provide this benefit for manure-to-energy facilities. PG&E’s Schedule E-SRG, which will take effect on January 1, 2008, gives customers with renewable generation the opportunity to first off-set their own usage, then sell excess generation to PG&E at MPR rates. Thus, there is in fact no need for this recommendation.
2. This recommendation would also eliminate demand charges for net metered biogas for service interruptions due to routine maintenance (p.6-5). Please note that the demand charges would not really be “eliminated” – the burden would just shift to other ratepayers. The text does not provide a compelling reason why other ratepayers should bear this burden. Thus, we recommend that the draft report either eliminate this

recommendation, or explicitly state that other ratepayers will pick up the cost and explain why that should be the case.

9. Agriculture II.C – Agricultural Biomass Utilization

The text asserts that the ability for biomass power generators to sell power is not certain, as the utilities have not always been willing to buy power from third-party renewable generators, and that ownership of the RECs is also subject to differing interpretations (p.6-8). These statements are out-of-date. All three IOUs have made extra efforts to sign bio-energy contracts in the last several years. PG&E has signed 11 such contracts since 2002. SCE has created 3 special standard contracts to facilitate bio-energy purchases. The REC and GHG credit issues have been the subject of multiple CPUC proceedings and are fully resolved. As discussed above, PG&E will soon have a tariff that will allow customers to sell excess electricity from renewable generation. Again, we believe it is important that the draft report contain a balanced view; thus, please amend this section accordingly. Finally, please note that PG&E supports the conversion of biomass into renewable natural gas, as converting biomass into natural gas may make more sense in relatively remote areas near transmission pipelines surrounded by plenty of biomass. PG&E currently has several contracts with customers to purchase the natural gas from biomass conversion.

10. Forestry IV.A – Link Forest Fuels Management and Biomass Utilization: Green Bio-fuels Index

This recommendation states that “small price increase for bio-power would mobilize more wood waste out of the forest, at least to a break-even point to support fuel reduction costs” (p.7-7). However, there is no discussion regarding what that entails. Please include more details. Also, please include reference to PG&E’s Schedule E-PWF, and similar tariffs for other investor owned utilities.

11. ETAAC Review of Market Advisory Committee Report, Section I.D – Use of Auction Revenue

The draft reports includes four areas that could be productive and appropriate uses of auction revenues (p.8-4). PG&E has proposed returning a portion of the auction revenue to customers as another use of auction revenues; however, this recommendation was not included because there was no consensus view among committee members. In the interest of presenting a range of differing views where agreement was not possible, we respectfully request that the report include the following statement: “Some members are concerned about the impact on customer rates and support returning a portion of the auction revenue to customers. As a case in point, the California electric sector emission is approximately 100 million metric tons per year. Assuming a cost of \$20 per metric ton, this would equate to approximately \$2 billion per year and a huge impact to customers. Thus, the State’s first priority should be to help alleviate the cost increase associated with mandatory compliance which will be borne by customers of load-serving entities by returning a portion of the auction revenue to customers.”

12. ETAAC Review of Market Advisory Committee Report, Section I.C – Allowance Allocation Method

The draft report correctly states that there was general agreement that some level of auctioning will be necessary, and that allowance auctions provide the strongest financial incentives for innovation within sectors. The draft also indicates that some ETAAC members felt that a well-designed free allocation system with a stringent cap could also provided incentives for innovation, and further states that “All ETAAC members agreed that output-based free allocation methods are preferable to grandfathering” (p.8-3) We are concerned that this statement may be misconstrued that all ETAAC members support free allocation. Thus, we recommend that the statement be revised as follows: “All ETAAC members agreed that, *if* a free allocation method is to be used, then an output-based allocation method is preferable to grandfathering.”